



Patrick W. Henning, Director  
July 25, 2008  
22M:375;jel:8069:8070



Arnold Schwarzenegger  
Governor

Mr. John Solis, Executive Director  
San Joaquin County Employment and  
Economic Development Department  
56 South Lincoln Street  
Stockton, CA 95203

Dear Mr. Solis:

WORKFORCE INVESTMENT ACT  
FISCAL AND PROCUREMENT REVIEW  
FINAL MONITORING REPORT  
PROGRAM YEAR 2007-08

This is to inform you of the results of our review for Program Year (PY) 2007-08 of the San Joaquin County Employment and Economic Development Department's (EEDD) Workforce Investment Act (WIA) grant financial management and procurement systems. This review was conducted by Ms. Jennifer Leeper from April 28, 2007, through May 2, 2008. For the fiscal portion of the review, we focused on the following areas: fiscal policies and procedures, accounting system, reporting, program income, expenditures, internal control, allowable costs, cash management, cost allocation, indirect costs, fiscal monitoring of subrecipients, single audit and audit resolution policies and procedures for its subrecipients and written internal management procedures. For the procurement portion of the review, we examined procurement policies and procedures, methods of procurement, procurement competition and selection of service providers, cost and price analyses, and contract terms and agreements and property management.

Our review was conducted under the authority of Section 667.410(b)(1), (2) & (3) of Title 20 of the Code of Federal Regulations (20 CFR). The purpose of this review was to determine the level of compliance by EEDD with applicable federal and state laws, regulations, policies, and directives related to the WIA grant regarding financial management and procurement for PY 2007-08.

We collected the information for this report through interviews with representatives of EEDD, a review of applicable policies and procedures, and a review of documentation retained by EEDD for a sample of expenditures and procurements for PY 2007-08.

We received your response to our draft report on July 1, 2008, and reviewed your comments and documentation before finalizing this report. Because your response adequately addressed findings one and three cited in the draft report, no further action is required at this time. However, these issues will remain open until we verify the implementation of your stated corrective action plan during a future onsite review. Until then, these findings are assigned Corrective Action Tracking System (CATS) numbers 80111 and 80113. However, your response did not adequately address finding two cited in the draft report, and we consider this finding unresolved. We request that EEDD provide the Compliance Review Division (CRD) with a corrective action plan (CAP) to resolve the issue that led to this finding. Therefore, this finding remains open and has been assigned CATS number 80112.

### **BACKGROUND**

The EEDD was awarded WIA funds to administer a comprehensive workforce investment system by way of streamlining services through the One-Stop delivery system. For PY 2007-08, EEDD was allocated: \$2,819,887 to serve 836 adult participants; \$3,146,340 to serve 302 youth participants; and \$2,109,153 to serve 438 dislocated worker participants.

For the quarter ending March 31, 2008, EEDD reported the following expenditures and enrollments for its WIA programs: \$1,524,886 to serve 818 adult participants; \$1,465,076, to serve 266 youth participants; and \$375,403 to serve 247 dislocated worker participants.

### **FISCAL REVIEW RESULTS**

While we concluded that, overall, EEDD is meeting applicable WIA requirements concerning financial management, we noted instances of noncompliance in the following areas: accrual reporting and expense payments. The findings that we identified in these areas, our recommendations, and EEDD's proposed resolution of the findings are specified below.

#### **FINDING 1**

- Requirement:** 29 CFR 97.20(b)(1) states, in part, that financial reporting must be accurate, current, and complete.
- 20 CFR Section 667.300(c)(3) states, in part, that reported expenditures must be on the accrual basis of accounting. If a recipient's accounting records are not normally kept on an accrual

basis of accounting, the recipient must develop accrual information through an analysis of the documentation on hand.

WIAD06-4 states, in part, that all WIA grant recipients are required to report expenditures on an accrual basis and must submit quarterly expenditure reports on a cumulative basis and a separate expenditure report must be filed for each line item or grant code. Additionally, it is required that accruals be split out for quarterly reports.

**Observation:** We found that EEDD's subrecipients do not report quarterly accruals. Unlike the financial reports submitted by EEDD to the State, the quarterly financial reports submitted by the subrecipients do not contain a separate line item for reporting accruals. The EEDD staff stated that subrecipients report all accruals as actual expenditures and did not provide a separate financial report to substantiate that its subrecipients report on an accrual basis.

**Recommendation:** We recommended that EEDD provide CRD with a CAP stating how it will ensure, in the future, that its financial reports separate accruals from actual expenditures for its subrecipients.

**EEDD Response:** The EEDD stated that effective July 1, 2008, EEDD subrecipients will be required to provide financial reports that separate accruals from actual expenditures on a quarterly basis.

**State Conclusion:** The EEDD's stated corrective action should be sufficient to resolve this issue. However, we cannot close this issue until we verify, during a future onsite visit, EEDD's successful implementation of its stated corrective action. Until then, this issue remains open and has been assigned CATS number 80111.

## **FINDING 2**

**Requirement:** Office of Management and Budget (OMB) Circular A-87, Attachment A, Section (C)(1)(a) states, in part, that for a cost to be allowable it must be necessary and reasonable for proper and efficient performance and administration of Federal awards.

OMB Circular A-87, Attachment A, Section (C)(2) states, in part, that a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

Consideration shall be given to whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.

29 CFR 97.36(b)(4) states, in part, that grantee and subgrantee procurement procedures will provide for a review of proposed procurements to avoid purchase of unnecessary or duplicative items.

**Observation:**

The EEDD procured 50,000 magnetic membership swipe cards for \$14,345.10. The EEDD stated that it is more cost effective for them to purchase membership cards in such large quantities. This purchase was to last EEDD 18 months. However, during PY 2006-07, the new enrollment count for all WIA programs was only 862. The current new enrollment count for PY 2007-08 is only 715. Based on the past and current new enrollment counts, purchasing 50,000 membership cards is not a necessary and reasonable purchase.

**Recommendation:** We recommended that EEDD provide a CAP to CRD stating how it will ensure, in the future, that unnecessary or duplicative items are not purchased using WIA funds.

**EEDD Response:** The EEDD disagrees with CRD's finding. The EEDD does not believe that the procurement of 50,000 membership cards was unreasonable. All 50,000 cards are necessary and will be used within the grant funding period. The EEDD stated that reported enrollment counts have no correlation with the issuance of membership cards because EEDD issues membership cards to customers in core self-services at their five One-Stops Centers. The EEDD estimated that approximately 18,300 new customers will have received membership cards during PY 2007-08. On average, 25-percent of new members lose their cards and are issued replacement cards during one fiscal year. Other long-term members are also issued replacements. This accounts for an issuance of approximately 25,000 membership cards per year.

The EEDD also stated that if the membership cards were purchased in smaller quantities the unit price would increase.

**State Conclusion:** Based on EEDD's response, we cannot resolve this issue at this time. The EEDD did not provide any documentation supporting the estimates provided in its response. Consequently, this issue will remain unresolved until EEDD provides CRD either the supportive documentation of the estimates provided in its response or a CAP stating how it will ensure, in the future, that unnecessary or duplicative items are not purchased using WIA funds. Until then, this issue remains open and has been assigned CATS number 80112.

In addition to the findings above, we identified a condition that may become a compliance issue if not addressed. Specifically, EEDD procured 250 USB Flash Drives for \$1,750 to be sold "at cost" to One-Stop participants. At the time of the review, EEDD had not determined a selling price or had sold any. However, the EEDD stated they do not plan on earning program income and were unsure if the flash drives would sell successfully. We suggested that EEDD determine the reasonableness for procuring 250 flash drives because of the uncertain demand by participants. Additionally, we suggested that EEDD determine how it will account for any program income earned. In its response, EEDD did not respond to our concern.

### **PROCUREMENT REVIEW RESULTS**

While we concluded that, overall, EEDD is meeting applicable WIA requirements concerning procurement, we noted an instance of noncompliance in the area of sole source procurements. The finding that we identified in this area, our recommendation, and EEDD's proposed resolution of the finding is specified below.

### **FINDING 3**

**Requirement:** 29 CFR Section 97.36(d)(4)(i-ii) states, in part, that procurement by noncompetitive proposal may be used only when the award of a contract is infeasible under small purchase procedures, sealed bids or competitive proposals, and one of the following circumstances applies:

- The item is available only from a single source;
- The public exigency or emergency for the requirement does not permit a delay resulting from competitive solicitation;

- The awarding agency authorizes noncompetitive proposals; or
- After solicitation of a number of sources, competition is determined inadequate.

Additionally, a cost analysis, such as verifying the proposed cost data, the projections of the data, and the evaluation of the specific elements of costs and profit, is required.

**Observation:**

The EEDD completed two sole source procurements and did not complete a cost analysis for either one. Specifically, we reviewed:

- A \$6,842.12 purchase for a heating and air conditioning maintenance (HVAC) service contract from Frank Booth Inc. (FMB). The contract period was January 1, 2008 through December 31, 2008. FMB is an authorized dealer and certified technical provider of the HVAC system. The EEDD stated that it would be far more costly to have the system maintained by another vendor, as that vendor would need to learn EEDD's HVAC system and that it would not be prudent for them to use San Joaquin County's maintenance staff to maintain the HVAC system. However, EEDD did not provide a cost analysis substantiating that the proposed cost of contracting with FMB would be less expensive than contracting with an alternate vendor.
- A \$14,345.10 purchase for 50,000 magnetic membership swipe cards. The membership cards are used by One-Stop participants. The EEDD stated that a similar purchase was made during PY 2000-01 from the same vendor and that the cost per card was more expensive for this purchase. However, EEDD did not provide documentation substantiating that a cost analysis was completed for either of these membership card sole source transactions.

**Recommendation:** We recommended that EEDD provide CRD with a CAP, stating how it will ensure, in the future, that a cost analysis is completed for all future sole source transactions.

**EEDD Response:** The EEDD stated that it is the responsibility of the San Joaquin County Purchasing Department to procure all goods and services

in accordance with the policies and regulations of the County. The San Joaquin County procurement regulations generally enforce more stringent requirements and limitations than those imposed by the federal regulations.

The EEDD and the San Joaquin County Purchasing Agent sole sourced the HVAC maintenance contract with FM Booth, due to the fact that the equipment and replacement parts were believed to be proprietary to FM Booth and the building owner wanted us to use the same vendor that installed the equipment, minimizing the risk of maintenance discrepancies that could jeopardize the equipment warranty. At this point in time, it has been determined that another vendor could maintain the equipment, however, more than likely, at a higher expense. The EEDD stated it will bid out the maintenance of the HVAC system upon the termination date of the contract with FM Booth. In addition, EEDD will add a cost analysis section to the sole source method of procurement form for future use.

While EEDD sole sourced the procurement of 50,000 magnetic membership cards, the County Purchasing Agent is ultimately the purchasing authority. In speaking with the County Purchasing Agent, Rick Delatore, EEDD staff was informed that this purchase was considered a small purchase under County regulations, based on the cost per unit amount. The unit cost was \$0.28, when purchasing 50,000 cards. 29 CFR Section 97.36(d)(1) states, in part, that if small purchase procedures are used, price or rate quotations will be obtained from an adequate number of qualified sources. Due to the insignificant unit cost, it was determined by the San Joaquin County Purchasing Department that a single quote was adequate. However, to comply with applicable procurement requirements, EEDD will notify the San Joaquin County Purchasing Department when multiple quotes are necessary.

**State Conclusion:** The EEDD's stated corrective action should be sufficient to resolve this issue. However, we cannot close this issue until we verify, during a future onsite visit, EEDD's successful implementation of its stated corrective action. Until then, this issue remains open and has been assigned CATS number 80113.

July 25, 2008

We provide you up to 20 working days after receipt of this report to submit to the Compliance Review Division your response to this report. Because we faxed a copy of this report to your office on the date indicated above, we request your response no later than August 22, 2008. Please submit your response to the following address:

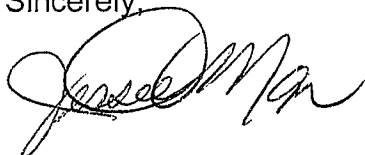
Compliance Monitoring Section  
Compliance Review Division  
722 Capitol Mall, MIC 22M  
P.O. Box 826880  
Sacramento, CA 94280-0001

In addition to mailing your response, you may also FAX it to the Compliance Monitoring Section at (916) 654-6096.

Because the methodology for our monitoring review included sample testing, this report is not a comprehensive assessment of all of the areas included in our review. It is EEDD's responsibility to ensure that its systems, programs, and related activities comply with the WIA grant program, Federal and State regulations, and applicable State directives. Therefore, any deficiencies identified in subsequent reviews, such as an audit, would remain EEDD's responsibility.

Please extend our appreciation to your staff for their cooperation and assistance during our review. If you have any questions regarding this report or the review that was conducted, please contact Mr. Jim Tremblay at (916) 654-7825 or Ms. Jennifer Patel at (707) 576-2017.

Sincerely,

A handwritten signature in black ink, appearing to read "Jessie Mar", written over a horizontal line.

JESSIE MAR, Chief  
Compliance Monitoring Section  
Compliance Review Division

cc: Shelly Green, MIC 45  
Jose Luis Marquez, MIC 50  
Norma McKay, MIC 50  
Lydia Rios, MIC 50